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Supplement

Central Eurasia

Economic Review

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Central Eurasia
SUPPLEMENT
Economic Review

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Interregional Affairs

Currencies of Several Former Republics Evaluated

Turkmenistan's Manat

954E0570A Moscow ROSSIYSKAYA GAZETA in Russian 28 Jan 95 p 10

[Article by Grigoriy Smolnikov: "The Manats Came Pouring Out of the Piggy-Bank; Everyone Was a Winner—the State, the Traders, and the Common Folk"]

[FBIS Translated Text] Back in November 1993 Ashkhabad [Ashgabat] was the first Central Asian capital to have its own national currency—the manat. This bold step seemed to have been well-calculated. Turkmenia had been living a fairy-tale life—with a deficit-free budget—for two years by that time. In the beginning, President S. Niyazov, whose profile was stamped on the coins, even promised that the manat would not be inferior to the dollar in any way.

Subsequent events quickly put everything in its proper place, however. At the first six currency trading sessions, the Central Bank of Turkmenia was lavish with currency to prop up the "directive" exchange rate of 2 manats to 1 dollar at any price. Financiers in the know claim that the concern about prestige cost the treasury 40 million "greenbacks." The black market, however, was wide awake. Currency speculators unceremoniously let the manat fall to one-fifth of its previous value in a single month by taking advantage of the biased exchange rate: They bought only hard currency and stubbornly refused to sell it.

People used every possible trick to acquire the dollars they had wanted for such a long time. They would buy a ticket to Moscow and rush to the exchange center, for example, and then cash in the ticket. As a result, planes were leaving without passengers, and the manat "went into a spin."

Traders and businessmen were tormented by conversion problems all last year. Few people were eager to trade with Turkmenia at the artificially lowered exchange rate of the manat, which was convenient only for the treasury, but the river of foreign currency for shipments of natural gas—Kara-Kum's main resource—had stopped flowing into it.

Ukraine, Georgia, Azerbaijan, and Armenia owed Turkmenia a billion and a half dollars. In addition to everything else, Russia, which always paid its bills on time, refused deliveries of cotton and 11 billion cubic meters of gas. No matter how many black-market "beetles" the Turkmen police caught, no matter how many were sentenced by the courts to the "prescribed" prison term of two years, they, just like the imperishable locust, continued to undermine the manat. The final blow took the form of long lines for bread, empty shelves in delicatessens and department stores, and inflation soaring beyond the 2,000-percent barrier. It already took at least 250 manats to get a single dollar.

Finally, the Central Bank gathered up enough strength to deliver a knock-out blow to the black market last December. The exchange centers were reopened, and dollars could be bought there freely, but now they cost 230 manats. In the first 10 days the population was happy to part with half a billion "hot" manats—one-fourth of the estimated amount accumulated in piggy-banks. Everyone profited from this. The state returned the money in the form of higher wages for the personnel of budget-carried agencies and higher pensions and stipends. Traders and ordinary citizens got the hard currency they wanted.

To put the manat on a stronger foundation, the government prohibited all future settlements in foreign currency and followed Russia's example in obligating all exporters to sell half of their receipts to the Central Bank. Furthermore, businessmen who want dollar credits from commercial banks will have to get an "okay" from the president himself.

Official Exchange Rates of Currencies of Republics of Former USSR (at the beginning of this week)

Republic	Currency	Date of institution	Rate of exchange for U.S. dollar	Rate of exchange for German mark	Rate of exchange for Russian ruble
Azerbaijan	manat	8/92	4,268.00	2,729.07	1.178
Armenia	dram	11/93	405.84	264.48	0.103
Georgia	coupon	8/93	1,260,000.00	819,244.86	290.0
Belorussia	Belarusian ruble	5/92	11,720.00	7,625.24	3.00
Kazakhstan	tenghe	11/93	55.20	36.00	0.015
Kirgizia	som	5/93	10.75	6.9896	0.0029015
Latvia	lat	6/93	0.545	0.355	0.000147
Lithuania	litas	6/93	4.00	2.6013	0.001048
Moldavia	leu	11/93	4.339	2.7983	0.00114
Tajikistan	Russian ruble	11/93	3,861.00	2,518.00	-
Turkmenia	manat	1/93	10.00	5.9213	0.0058616
Ukraine	karbovanets	11/92	104,000.00	66,740.00	27.70
Uzbekistan	sum	6/94	25.00	16.31	0.00675
Estonia	kroon	7/92	12.248	8.00	n/c

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Moldova's Leu

954E0570B Moscow ROSSIYSKAYA GAZETA in Russian 28 Jan 95 p 10

[Article by Lyudmila Feliksova: "The Leu Is Not Burning, But the Firemen Are Infuriated; The Stability of the National Currency Is a Source of Only Moral Satisfaction"]

[FBIS Translated Text] It has been a year since the institution of Moldavia's [Moldova's] national currency. The anniversary is still not circled in red on the calendar, but the leu did merit a special public announcement by republic President M. Snegur. The official government newspaper, NEZAVISIMAYA MOLDOVA, printed the president's words in large letters in a headline: "The Moldavian Leu Is One of the Most Stable Currencies in the Former Soviet Republics." This is true. The leu is stable.

Something else also happened around the time of the national currency's first birthday. More than 10 fire engines, sounding their sirens at a deafening pitch, raced to the center of Kishinev [Chisinau] and parked right between the parliamentary building and the presidential residence. This was a protest demonstration. The firemen's chief demand was the payment of back wages. There was a direct connection between these two events.

When the president was interviewed, he spoke of the stability of the leu as a great financial success, and even a political victory, and cited some figures as evidence of this: Whereas the rate of inflation was over 2,000 percent in 1993, it was only 100 percent last year. In contrast to the "plummeting" Russian ruble, the leu has experienced only 10 points of devaluation since the time of its introduction. This certainly is a success and matter of exceptional pride in the republic, but it is a solitary and isolated success against the overall background of the continuing slump in production (around 40 percent in industry and agriculture in 10 months) and the mass impoverishment of the people—experts estimate that more than 80 percent are living below the poverty line.

Snegur castigated the skeptics who had predicted the quick devaluation of the national currency and expressed and expressed profound gratitude to the leu's main guardian—the International Monetary Fund, which had put 150 million dollars in credit into its foundation. We can only judge the price the people of Moldavia will have to pay for financial stabilization by indirect signs. The nonpayment of wages is only one way of keeping the total supply of money within the necessary limits. Vice-President L. Burunchuk of the National Bank disagreed with the common opinion that the IMF credits are the only thing propping up the leu. She gave the National Bank credit for this, stressing that its monetarist policy and control of the total supply of money had helped to augment forex reserves by a sum equivalent to the IMF credits—over 100 million dollars. Republic leaders have been unanimous in assuring citizens, who are being driven to distraction by the lack of money, that they simply have to be patient a while longer.

Vice-Premier I. Gutu expressed the same opinion in more definite terms: "The stability of our currency has to be supported in every way possible."

Trade unions are sounding the alarm. They calculated the value of the group of dietary staples again. It was 298 lei in November, but the average wage that same month was 142 lei. The wages of teachers, physicians, and workers in the service sector amount to 122 lei and barely cover minimum physiological requirements.

Kazakhstan's Tenghe

954E0570C Moscow ROSSIYSKAYA GAZETA in Russian 28 Jan 95 p 10

[Article by Vladimir Akimov: "The Tenghe Could Take Offense; Do Not Blame Money for Rising Prices"]

[FBIS Translated Text] It has been a year since Kazakhstan instituted its own currency, the tenghe, but the pride many of the inhabitants of the sovereign state felt on that memorable occasion has disappeared. This is confirmed by a comparison of public opinion polls conducted recently and a year ago.

According to ITAR-TASS, only 27 percent now say it is absolutely worthwhile for the state to have its own money, while 54 percent categorically express the opposite opinion. When a poll was conducted a year ago, hot on the heels of the "freshly baked" tenghe, attitudes were completely different. More than 40 percent of the respondents in a sociological survey approved of the decision to take Kazakhstan out of the ruble zone.

This striking change in the attitudes of the Kazakhstanis, according to experts, is connected with the constant decline of the standard of living. It is true that prices in the production sector of the economy are 24 times as high as they were when the national currency was instituted, and consumer prices are 15 times as high. Real wages, however, are only 11 times as high, and they are held up for months at a time. That is the reason for the unwitting parallel in the minds of many people between the introduction of the tenghe and the need to tighten their belts.

The tenghe, however, is least of all to blame for the rising prices and the dwindling purchasing power of the population, and this is confirmed by experienced economists. On the contrary, the institution of a national currency gave Kazakhstan total freedom to pursue its own monetary policy. They feel that the republic no longer depends on the rate of inflation in neighboring states. The National Bank has a gold reserve. A fairly capacious currency market has taken shape. All of this has eliminated the problem of overdue payments to CIS countries, and especially to Russia, with which Kazakhstan still has the strongest economic ties. Kazakhstan's own foreign exchange market has also laid the foundation for business contacts with states of the far abroad.

Experts have even said that the tenghe has provided the republic with a reliable instrument to support the convertibility and stability of national currency. The tenghe has not displayed a dramatic decline in relation to the American dollar in the last six months. In their opinion, the monetary component of the continuing inflationary processes in Kazakhstan is quite small. Everyone in the republic, however, is distracted by the soaring rate of inflation and rising consumer prices.

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Russian Ruble's Significance

954E0570D Moscow ROSSIYSKAYA GAZETA in Russian 28 Jan 95 p 10

[Article by Khalima Otambekova: "The Ruble's Brother—the Ruble; Distinguished Only by a Different Set of National Symbols"]

[FBIS Translated Text] The shortage of cash—Russian rubles—is still one of the most acute problems in Tajikistan. That is why there is virtually no monetary circulation in the republic. A partial solution—as we were informed at the Tajik Embassy in the Russian Federation—has been found. New money will be issued in the republic in February. It will not be a national currency like the tenghe, the manat, and the som of other sovereign states in Central Asia, but will still be a ruble.

The ersatz banknotes will resemble Russian rubles but will have different national symbols. The Tajik ruble and its Russian counterpart are expected to be circulated on equal terms.

Obviously, the circulation of new money in Tajikistan, just as any other process, will have advantages and drawbacks. People in the republic feel that it will revitalize the economy and finally create a chance to pay the billions owed on pensions, stipends, and wages. It will provide the impetus for a normal human life.

The civil war inflicted colossal material damages on the republic. The lack of cash compounded this grave situation. That is why even the slight advantages of this solution to a continuing problem will be of great value in normalizing socioeconomic conditions in the republic.

On the other hand, there is the worry that the provisional currency of Tajikistan will be negotiable only within the republic. The market in Dushanbe is full of products from neighboring republics only because the Russian currency, which is still being circulated in the republic, is always in demand. Russian rubles moved from the republic to neighboring states. A domestic currency is certain to affect the market, and inflation is inevitable at a time of severe recession.

Hope springs eternal, however. Officials in Tajikistan hope to unite the Russian and Tajik financial systems in the future.

Russia National Affairs

Data on Balance of Payments for January-September 94

954F1316A Moscow EKONOMIKA I ZHIZN in Russian No 5, Feb 95 p 6

[Article by A. Potemkin, director of Foreign Operations Department, Bank of Russia: "Russia's Balance of Payments for January-September 1994"]

[FBIS Translated Text] The balance of payments was drawn up by the Russian Federation Central Bank on the basis of bank statistics and information about economic relations with non-residents accumulated by the Russian Federation State Committee for Statistics, Russian Federation State Customs Committee, the Russian Federation Ministry of Finance, the Russian Federation Ministry of Foreign Economic Relations, and other ministries, departments, and organizations.

The foreign trade volume recorded by customs agencies and official statistics was adjusted prior to its inclusion in the balance sheet of current accounts: The volume of "shuttle" operations, estimated by experts from the Bank of Russia and the Russian Federation State Committee for Statistics, was added to exports and imports.

Separate Russian payment balances with the countries of the "near" and "far" abroad were drawn up in addition to the consolidated balance sheets (tables 1 and 2) to identify the regional features of the foreign economic activities of residents.

Current Operations

Balance of foreign trade. Russia's foreign trade volume in January-September 1994 was close to 81 billion U.S. dollars, which was 10 percent higher than the indicator for the first nine months of the previous year (exports increased by 3 percent in dollar terms, and imports increased by 22 percent).

The structure of Russian exports continued to display a prevalence of raw materials, despite unfavorable changes in world prices. Foodstuffs, including agricultural raw materials, represented an increasingly large share of imports. The products of the fuel and energy complex accounted for 45 percent of total exports (although world prices dropped 7-18 percent), for example, while the proportional amount of foodstuffs in total imports exceeded 25 percent.

The correlation of exports of fuel and energy resources to the "near" and "far" abroad in physical and cost terms was the following:

—for oil and petroleum products—1:3 (in physical terms) and 1:5 (in cost terms);

—for natural gas—10:13 (in physical terms) and 10:16 (in cost terms).

It must be said that far from all of the oil and gas sent to the "near" abroad is paid for on time and in full by the contracting parties, and this puts additional pressure on the country's balance of payments. In the first quarter there were no settlements with Russian exporters for 20 percent of the exports, the figure was 40 percent in the second quarter, and in the third quarter there was no payment for around half of the products of the fuel and energy complex that were sent to the "near" abroad. In all, the indebtedness of countries of the "near" abroad for products of these groups from Russia increased by almost 2 billion dollars in those nine months.

As far as the abovementioned substantial increase in imports is concerned, this was due largely to the failure of the decline of the ruble exchange rate to keep up with the

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development of domestic inflationary processes. The summary index of consumer prices during the report period fell below the rate of decline in the exchange rate only in March and September.

In general, the foreign trade operations of residents were exceptionally active, resulting in exports exceeding imports by 10 billion dollars. The decline of physical indicators, however, suggests that the intensification of these contacts could be interpreted as the augmentation of the relative dependence of the country's economy on the outside world, especially in view of the predominance of raw materials in exports and the predominance of consumer goods in imports.

Balance of international services. The negative balance of international services (-8.2 billion dollars) is due largely to the shortage of factor services, particularly capital services in the form of foreign credits obtained and extended in different years. The cost of importing these services, expressed in the amount of interest payable in the report period, was 7.7 billion dollars, whereas the schedule of reciprocal payments (exports of capital services) envisaged the payment of 4.6 billion dollars less to Russia. Nevertheless, the actual level of Russia's servicing of its own debt—15 percent (relationship of actual payments to schedule)—is preferable to the level of debt servicing for credits owed to Russia (9.5 percent). In particular, the rapid accumulation of overdue interest payments by the republics of the former USSR arouses concern. By the terms of the ruble credits extended to them, interest payments were to begin in 1994. Scheduled payments for January-September totaled 167 million dollars, but the amount remitted was only 12 million.

In general, overdue and deferred interest payments on Russian foreign debts in the report period amounted to 6.5 billion dollars, and the figure on debts owed to Russia was 2.5 billion.

In the non-factor service sector there was a substantial negative balance of tourist and construction services. The latter indicator was still being affected considerably by Germany's construction of housing for Russian servicemen as a form of humanitarian assistance.

Operations with Capital

The foreign credits attracted in January-September amounted to only 5.8 billion dollars. The amount used through state channels was 4.5 billion (5.2 billion in the first nine months of 1993). The main financial contributors were contracting parties from countries of the "far" abroad and international financial organizations; the latter accounted for around 35 percent of all the foreign credits used by Russia.

Commercial banks accounted for 1.1 billion dollars (or 19 percent) of all the credits attracted, but only a negligible portion (around 150 million dollars) was long-term credit and could be used in investment projects. The predominant short-term credits were used to cover the current needs of authorized banks and their clients, including import and conversion operations.

Besides this, the amount of attracted resources should include the accumulated nonpayments by Russian enterprises for imports from CIS countries in the amount of 210 million dollars in the report period. It is significant that the amount of this indebtedness was slightly lower than the figure for the first six months of the year (by 89 million dollars). In other words, in the third quarter Russian enterprises began the net repayment of their debts to contract partners in the CIS.

In all, payments on the official foreign debt in the period in question totaled 2.8 billion dollars (2.5 billion in January-September 1993). Therefore, the net increase in the state's foreign liabilities for the first three quarters of the past year amounted to 1.7 billion dollars (excluding interest from earlier periods).

Countries of the "near" abroad continued to be credited with Russian budget resources. They were granted 183 million dollars in credit in January-September. The combined debts of these countries on 1 October 1994 (excluding assets transferred to Russia from the former USSR) reached 3.5 trillion rubles (the dollar equivalent cannot be calculated at this time because the terms of converting the ruble debt to hard currency were not stipulated in several lines of credit).

Table 1. Russia's Balance of Payments for January-September 1994 (millions of U.S. dollars)

Item	Credit	Debit	Balance
CURRENT OPERATIONS	57,585	54,963	2,622
Balance of trade	45,515	35,122	10,393
Exports	45,515		45,515
crude oil	8,256		8,256
petroleum products	3,253		3,253
natural gas	8,780		8,780
gold	1,365		1,365
"Shuttle" trade	500		
Humanitarian aid	3		3

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Table 1. Russia's Balance of Payments for January-September 1994 (millions of U.S. dollars) (Continued)

Item	Credit	Debit	Balance
Imports		35,122	-35,122
grain		452	-452
other foods and agricultural raw materials		7,126	-7,126
medicine		1,000	-1,000
machines and equipment		8,945	-8,945
"Shuttle" trade		7,700	-7,700
Humanitarian aid		347	-347
Adjustment for non-equivalent barter[1]	-412		412
Balance of Services	11,310	19,490	-8,180
Non-factor services	8,237	11,765	-3,528
Transport	3,011	2,997	14
water	1,370	956	414
air	1,032	765	267
pipeline		1,127	-1,127
other	609	149	460
Tourism	3,683	5,846	-2,163
Construction services	104	969	-865
Banking and financial services	61	54	7
Other services	1,378	1,899	-521
Factor services	3,073	7,725	-4,652
State credits	2,526	0	2,526
Other credits	214	7,654	-7,440
extended			
—interest received (schedule)	214		214
attracted			
—interest paid (schedule)		7,654	-7,654
Interest on deposits and bonds	271	31	240
Dividends and profits	63	40	
Transfers	1,172	351	821
Fees paid to international organizations		348	-348
OPERATIONS WITH CAPITAL	33,910	36,532	-2,622
Long-term and short-term credits attracted	4,129	8,905	-4,776
State credits	161	923	-762
—used	161		161
—amortized (payment schedule)		923	-923
Other credits	3,968	7,982	-4,014
—used (including increment in credit obligations for trade shipments	3,968		3,968
—amortized (payment schedule)		7,982	-7,982
Long-term and short-term credits extended	9,652	4,109	5,543
State credits	8,549	289	8,260
—used		289	-289
—amortized (payment schedule)	8,549		8,549

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Table 1. Russia's Balance of Payments for January-September 1994 (millions of U.S. dollars) (Continued)

Item	Credit	Debit	Balance
Other credits	1,103	3,820	-2,717
—used (including increment in incurred debt for trade shipments)		3,820	-3,820
—amortized (payment schedule)	1,103		1,103
Other long-term capital	857	1,233	-377
Direct investment	748	315	433
Portfolio investment	109	565	-457
Deposits		292	-292
Other capital		61	-61
Other short-term capital	3,380	7,108	-3,728
Current accounts and deposits	3,266		3,266
—assets	2,752		2,752
—liabilities	513		513
Foreign currency in bank cash reserves		194	-194
Foreign Currency in cash outside banks		6,182	-6,182
Other capital	114	733	-618
Overdue/deferred payments	12,034	10,302	1,732
State credits	134	10,091	-9,957
—principal	222	7,802	-7,579
—interest	-88	2,290	-2,378
Other credits	11,900	211	11,689
—principal[1]	5,300	20	5,280
—interest	6,600	191	6,409
Net gold reserves	3,858	170	3,688
Gross foreign assets	2,148		2,148
foreign currency reserves	1,674		1,674
gold	475		475
Gross foreign liabilities	1,710		1,710
Adjustment for revaluation of net international reserves		170	
Gold demonetarization		475	-475
Adjustment for movement of state credits[2]		180	-180
Adjustment for international reserves[3]		1,915	-1,915
Omissions and errors[4]		2,135	-2,135
BALANCE	91,495	91,495	0

1. Adjustment includes reduction of export prices in barter operations in relation to world prices and time lag.

2. Adjustment for recalculation of export delivery volume for credits repaid in convertible rubles.

3. Adjustment for duplicate entry in assets of commercial banks as a result of deposits of some official foreign currency reserves in their accounts.

4. Including unrecorded "shadow" capital export operations and errors in calculation.

Just as in the case of interest payments, the prospect of payments of the principal of the debts of the former republics of the USSR does not look promising. Not one of the republics has begun repaying the principal, although the loans have already matured (the amount that was supposed to have been repaid in the three quarters was 500 million dollars).

The total amount of credit extended to non-residents (including the increase in the indebtedness of enterprises in the "near" abroad for direct shipments from Russia) was equivalent to 4.1 billion dollars, which is comparable to the amount of foreign credit attracted. In principle, this is an indication of the possibility of restructuring the foreign debt to alleviate its pressure on the economy and to

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depend more on internal sources than foreign sources to cover the country's financial needs.

We also have to acknowledge the improbability of attracting serious foreign investors in view of our current economic instability, and the futility of reliance on foreign investment as one of the main factors in the restoration of the domestic investment cycle. In 1994 the amount of new direct foreign investment decreased: The figure for the first nine months was 750 million dollars (a net increase of 400 million), or only 66 percent of the figure for January-September 1993. Non-residents from countries of the "far" abroad were involved in virtually all direct investment operations, and they were conducted to cover the authorized capital of joint ventures.

Because of the highly developed infrastructure of world financial and stock markets and their relative predictability, the resulting flow of portfolio investment (500 million dollars) moved overseas.

The net foreign assets of the commercial banking network (the difference between assets and liabilities) in the "far" abroad decreased by almost 1.7 billion dollars, and the figure did not undergo any substantial changes in the "near" abroad. Most of the decrease was in short-term assets—the balance in correspondent accounts and short-term deposits (2.7 billion dollars). Furthermore, almost 2 billion dollars of this sum was due to the withdrawal of the funds of the Russian Federation Government and Bank of Russia from domestic foreign currency accounts.

Net imports of hard currency in cash by banks from abroad (mainly in U.S. dollars) totaled 15.2 billion dollars. This cash was used primarily for imports from the "far" and "near" abroad and to replenish the cash reserves of commercial banks. The rest of the cash "settled" outside the banking sector. In essence, all of the foreign currency receipts from foreign economic activity that were not used to pay for imports in the usual manner were converted to cash and brought into Russia for speculative purposes. Furthermore, part of the balance of the liquid foreign currency assets accumulated in earlier periods was also used for this.

Mass imports of foreign cash can have ambiguous macroeconomic consequences. Over the short range they can deter the development of inflationary processes and stimulate accumulation by tying up the disposable ruble income of the population. Over the medium and long range, however, the saturation of the economy with freely convertible currency can have a destabilizing effect. In one way or another, part of the foreign cash outside the banking sector enters the channels of monetary circulation, causes unpredictable increases in the supply of money, and distorts the proportions of monetary elements established by monetary regulatory agencies. Furthermore, the foreign cash kept "on hand" by the population dissipates and diverts economic assets from the domestic investment cycle and, by the same token, provides the country of origin with preferential interest-free credit. According to calculations, the country loses potential receipts of around 150 million dollars a year when foreign cash is kept "on hand" instead of in banks.

Table 2. Russia's Balance of Payments for January-September 1994 (Analytical Summary)

Item	Millions of U.S. dollars
CURRENT OPERATIONS	85
Balance of trade	9,028
Exports	44,150
Imports	-35,122
Adjustment for non-equivalent barter	-412
Balance of services	-8,180
Non-factor	-3,528
Factor	-4,652
Transfers	-351
OPERATIONS WITH CAPITAL	-20,874
Use of long-term and short-term credits	-2,793
attracted (private sector)	1,316
extended	-4,109
Amortization (payment schedule) of long-term and short-term credits	747
attracted	-8,905
extended	9,652
Other long-term and short-term capital	-4,126
Overdue/deferred payments on extended credit	-10,302
Total adjustments	-2,265
Omissions and errors	-2,135
BALANCE	-20,789
FINANCING	20,789
Gold exports	1,365
Humanitarian aid from abroad	1,172
Government's use of foreign credits and government-secured credits	4,544
state credits	161
IMF credit for reform	1,731
IBRD restoration loan	251
other financial and bank credits	2,401
Overdue/deferred payments on foreign debt servicing	12,034
Foreign currency reserves	1,674

The analytical version of the payment balance sheet (Table 2) was drawn up to illustrate the sources and amounts of the resources used by the Russian Federation Government in January-September to secure a foreign economic balance. It specifically shows that one of these sources was the official gold reserve.

International Gold Reserves

Net international gold reserves (NIR) for the first nine months of 1994 decreased by 3.8 billion dollars (or by 60 percent) and amounted to 2.5 billion dollars on 1 October 1994.

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This decrease was largely a result of concentrated intervention by the Russian Federation Central Bank in the domestic inter-bank foreign currency market in the beginning of the year and in August and September.

The second installment of the credit for comprehensive reforms in the amount of 1.5 billion dollars, extended to Russia in April by the International Monetary Fund (IMF), compensated somewhat for the tendency toward a decrease in reserve foreign currency assets (from 5.8 billion dollars to 4.2 billion).

The gold reserves of monetary regulatory agencies, calculated at 300 dollars per troy ounce, decreased by 500 million dollars and amounted to 2.6 billion dollars at the end of the report period.

The foreign liabilities included in calculations of net international reserves increased by 1.7 billion dollars. This increase was due primarily to the use of the abovementioned IMF credit. Besides this, the liabilities, mostly in the form of special drawing rights, increased by 200 million dollars as a result of their revaluation following the decline of the exchange rate of the dollar in relation to the SDR. Changes in the current liabilities of the Foreign Trade Bank, which were also included in the calculations of NIR, had virtually no effect on this indicator.

Goskomstat Socio-Economic Data for 1994

954F1423A Moscow EKONOMIKA I ZHIZN in Russian No 6, Feb 95 'Vash Partner' Section pp 4, 5

[Unsigned article, from RF Goskomstat Data: "The Socio-Economic Situation in Russia in 1994"]

[FBIS Translated Text]

Finances

According to the data of Russian Gosnalogsluzhba, the receipt of state taxes and other compulsory payments in the **budget system** on 1 December 1994 constituted 111.3 trillion rubles [R], or 20.5 percent of the GDP.

The following data describe the basic tax receipts in the budget system on Jan 12 1994:

	In the consolidated budget		Including the federal budget	
	trln rubles	in % of total	trln rubles	in % of total
Total receipts	111.3	100	39.4	100
in % of GDP, of them:	20.5		7.3	
profit tax	41.1	36.9	14.5	36.8
in % of GDP	7.6		2.7	
income tax from physical persons	14.5	13.0		
in % of GDP	2.7			
VAT	27.5	24.7	16.5	41.9
in % of GDP	5.1		3.0	
excise tax	5.3	4.8	2.8	7.1
in % of GDP	1.0		0.5	
special tax	4.4	4.0	3.2	8.1
in % of GDP	0.8		0.6	
resource payments	2.4	2.2	0.8	2.0
in % of GDP	0.4		0.1	

The arrears for payments to the budget for 11 months constituted R16.4 trillion, or 14.7 percent of the total volume of tax receipts, including R5.2 trillion from profit tax, 12.7 percent of the total sum of receipts from this tax, R7.1 trillion for VAT (25.8 percent), R1.8 trillion from excise taxes on mineral raw material (85.7 percent) and R2.2 trillion from payments for the use of underground and natural resources (91.7 percent).

The arrears in the collection of the basic taxes paid to the federal budget by economic components constituted R9.7 trillion. At the same time, the arrears for profit tax came to R2.0 trillion; for VAT—R4.7 trillion, for excise taxes on mineral raw material—R1.7 trillion, and for payments for the use of underground and natural resources—R1.3 trillion.

According to the data of the Bank of Russia, **credit outlay in the economy** constituted R82.9 trillion on 1 December 1994.

The dynamics of the credit outlay in the economy in 1994 are shown in the table:

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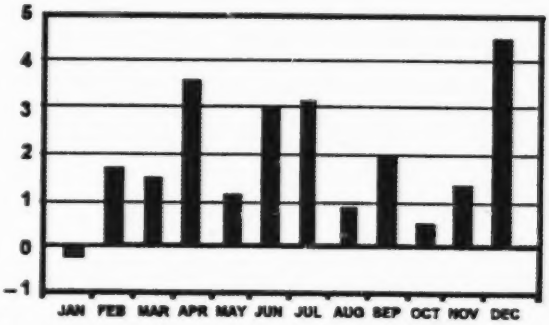
trln rubles

	1994				
	on 1 Jan	on 1 Apr	on 1 Jul	on 1 Oct	on 1 Dec
Credit outlay, incl:	30.0	38.9	52.9	69.9	82.9
short-term	29.0	37.5	50.2	66.6	79.1
in % of total	96.5	96.4	94.9	95.3	95.4
long-term	1.0	1.4	2.7	3.3	3.8
in % of total	3.5	3.6	5.1	4.7	4.5

In 1994, **monetary emission** increased by a factor of 2.1, as compared with last year, and constituted R23.2 trillion. In December 1994 it was R4.5 trillion, and rose by a factor of 3.2 in relation to November. The largest volume of emission in 1994 was in December, and the smallest—in November (R0.5 trillion), and in January 1994, money was withdrawn from circulation.

The change in emission volumes in 1994 is given in the graph:

MONETARY EMMISSION IN 1994 (TRILLION RUBLES)



In 1994 the Russian Ministry of Finance expanded **the emission of state short-term non-coupon bonds (GKO).**

In 1994, along with the continuation of floating GKO with a circulation period of three to six months, bonds with a circulation period of one year began to be issued. Three auctions were held in October-December to float the first issue of these bonds.

The results of the auctions for the first floating of state short-term bonds, summed up at the MMVB [Moscow Interbank Currency Exchange] in 1993-1994, are presented in the table (according to the data of the Bank of Russia):

bln rubles

	1994					1993 reference
	total for year	1st quarter	2d quarter	3d quarter	4th quarter	
Volume of issue (emission)	20,530.0	420.0	2,410.0	6,200.0	11,500.0	240.5
Volume of receipts from sale	12,866.3	284.8	1,863.3	4,445.3	6,279.9	177.3
Funds drawn into budget	5,742.3	92.2	1,481.5	2,235.0	1,933.6	150.5

The market is developing most rapidly for GKO with a circulation period of three months. In 1993-1994, the Russian Ministry of Finance emitted 26 issues of these bonds. The volume of floating the last, 26th issue exceeded the volume of floating the 9th issue (emission carried out in January 1994) by a factor of 16, and was R1.6 billion.

On 1 December 1994, 2,486 **commercial banks** licensed by the Bank of Russia to carry out banking operations and 5,460 of their branches were registered. The network of the Russian Sberbank had 31,200 branches. In November, the RF Central Bank registered 13 banks, 9 of which were located in Moscow.

The basic indicators of the development of the commercial bank network in 1994 are given in the table:

	1994			
	on 1 Jan	on 1 Apr	on 1 Jul	on 1 Dec
Number of commercial banks registered on RF territory, thous.	2.0	2.1	2.3	2.5
Total number of bank branches, thous.	4.5	4.9	5.1	5.5

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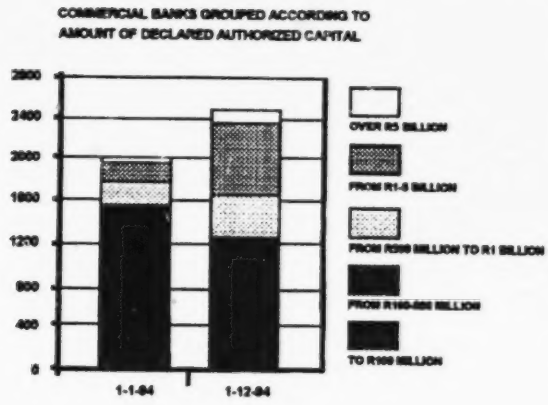

Thirty-six banks obtained general and currency licenses from the Bank of Russia. In the period from January to December 1994, 36 commercial banks were reformed into branches of other banks. Five banks were liquidated by decision of the general assembly of shareholders. During the same period, the licenses of 52 banks were recalled for violation of banking legislation.

Of the total number of banks registered in November 1994, three have a declared charter fund over R1 billion.

The distribution of commercial banks is given below:

Data on the provision of credit by commercial banks are presented in the table:

trln rubles

	1994				
	on 1 Jan	on 1 Apr	on 1 Jul	on 1 Oct	on 1 Nov
Credit provided by commercial banks to enterprises, organizations and the population	24.5	31.1	43.5	57	60.5
incl: short-term	23.7	30.1	41.3	54.3	57.7
long-term	0.8	1.0	2.2	2.7	2.8
Credit provided to other banks	2.2	3.2	4.6	6.7	6.5

Due to the assimilation of elements regulating monetary circulation, it was possible to achieve a favorable rate on the interbank credit market by autumn. By the end of the year, however, because of the exacerbation of the situation on the currency market and the attendant sharp leap in inflation, it was not possible to maintain the positive trend in the dynamics of the credit rates.

Data on the actual and real average interest rates of interbank credit are presented in the table:

%; calculated by month

	April	July	October	November
Actual interest rate				
Credit with term: up to 1 month	13.1	8.9	11.5	12.4
from 1 to 3 months	16.9	11.7	11.9	13.6
over 3 months	17.9	12.4	10.2	—
Real interest rates allowing for inflation				
Credit with term: up to 1 month	3.1	3.9	-3.5	-1.6
from 1 to 3 months	6.9	6.7	-3.1	-0.4
over 3 months	7.9	7.4	-4.8	—

In 1994, the Bank of Russia **began to distribute centralized credit resources at credit auctions.** Eleven auctions were held in the period from February to December.

The 11th credit refinancing auction was held in Moscow on 28 December 1994. The total volume of credit destined for auction was R70 billion, the total volume of centralized credit resources distributed was R66.4 billion, and the average final interest rate was 181.6 percent.

The results of distributing centralized credit resources at credit auctions in 1994 are presented in the table:

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Month of holding auction	Total volume of credit refinancing put forward at auction, bln rubles	Credit resources distributed (in % of their volume, put forward at auction)	Average final rate, % annual
February	70	64	214
March	175	66	214
April	190	56	207
May	150	54	191
June	160	71	142
July	120	99	90
August	160	48	121
September	100	20	130
October	150	71	170
November	50	97	180
December	70	95	182

Beginning on 17 November, the prime rate of the Bank of Russia (refinancing rate) for credit provided to commercial banks was increased from 170 percent to 180 percent annually.

The quoted interbank clearing rate on 12 December was 156.2 percent annually (weighted average on a 4-week basis), and the clearing rate for refinancing was 150.8 percent. The existing rate of refinancing (180 percent) exceeded the clearing rate by 28.8 percentage points.

Deposits of the population, according to the current data of Sberbank of Russia, constituted R15,207.9 billion, and increased by 11.2 percent during December.

The average size of the deposit was R62,700, the per capita residuals of the deposits constituted R102,800, and the number of depositors accounts per 1,000 inhabitants was 1,638 units.

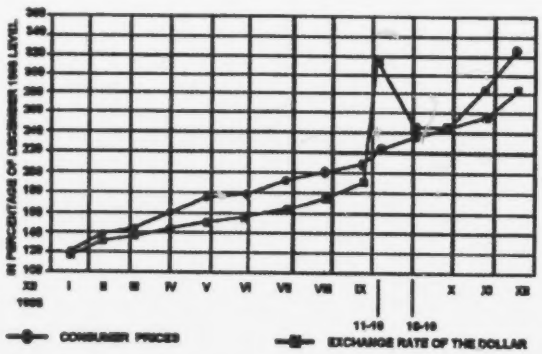
The residuals of the deposits of the population in 1994 are presented in the table:

	On 1 January 1994	On 1 Jul 94	On 1 Oct 94	On 1 Jan 95
Deposits, bln rubles	3,966.8	7,782.9	11,773.3	15,207.9
in % of the corresponding period last year	603	556	584	383

The rate of exchange of the United States dollar on the MMVB rose in December from R3,249 to the dollar (first marts of the month) to R3,350 to the dollar (last marts of the month). On the whole for December, the dollar exchange rate rose by 9.3 percent (in November—by 4.8 percent). In the course of December, the rise in the dollar exchange rate at the marts was quite smooth. The greatest daily rise in the exchange rate was 30 points (0.9 percent) between the marts on 14 and 13 December.

The change in the exchange rate of the United States dollar and in the consumer price index in 1994 is presented in the graph:

CHANGE IN CONSUMER PRICES AND DOLLAR-RUBLE EXCHANGE RATE IN 1994



The volume of US dollar sales (gross-circulation) in December 1994 on the MMVB increased by $116 million, as compared with the preceding month, and was $1.8 billion. The net sales volume of this currency (net-circulation) was $0.5 billion (in November—$0.7 billion). The increase in demand over supply on this market was $0.6 billion in December ($0.15 billion in November).

Profit. In January-November 1994, R57.9 trillion in profit was obtained in the sectors of the economy (not counting agriculture, joint ventures, foreign and small enterprises, budgetary organizations, banks and other credit-finance institutions), of which industry accounted for about 67 percent. As compared with the corresponding period last year, the profit volume in industry increased by a factor of 1.8, while prices rose by a factor of 5.3. According to estimates, on the whole in 1994, R71.2 trillion in profit was obtained in the sectors of the economy, including agriculture, and in industry—R42.7 trillion, or 60 percent of its total volume.

Some 28 percent of all the RF enterprises ended January-November 1994 with losses, and the losses totaled about R10.4 trillion. According to estimates, on the whole for the year, about one-third of the enterprises ended the year with negative financial results, and the total loss was R13 trillion.

The greatest relative proportion of unprofitable enterprises was in the sectors of the non-production sphere: housing-municipal services—43 percent, everyday service for the population—43 percent, and editing and publishing—47 percent.

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The following data describe the profitability on the whole for the sectors of the economy in 1994:

	Quarter	1st half-year	9 months	Year (estimate)
Profit from sale, in % of the production cost of goods sold on the whole for the sectors of the economy, incl:	12.7	13.8	14.4	15
industry	20.6	18.8	17.8	17

The profitability of the goods sold, on the whole for the Russian economy in 1994, was virtually unchanged, and remained at a level of 13-15 percent, and a reduction in it was observed in industry in the course of the year. At the same time, an increase in profitability was noted in construction, trade, supply and sales, science and scientific service, transport and other sectors of the economy.

Factors in Economic Decline Examined

954E0548B Moscow DELOVOY MIR in Russian 28 Jan 95 p 4

[Article by Dmitriy Matsnev, candidate of economic sciences at National Economic Forecasting Institute, Russian Academy of Sciences: "From the West to the East and from the East to the West: Mechanism of Destruction"]

[FBIS Translated Text] New tendencies in the Russian economy, which became noticeable at the end of 1993 and grew more pronounced in 1994, were obscured and almost unnoticed behind the well-publicized search for the individuals responsible for "Black Tuesday" and the tragic events in Chechnya.

Intensification of Disparities in Production Decline

These new tendencies first became noticeable in the form of substantial differences in the rate of production decline in the main branches of Russian industry—the oil industry, ferrous and nonferrous metallurgy, machine building, light industry, and the food industry. According to Goskomstat [State Committee for Statistics] data, the rates of reduction in the output of these branches in relation to the preceding period (in percentages) were the following:

Branches	Jan 94/Jan 90	1993/1992	Jan 94/Jan 93	Jan-May 94/Jan-May 93	Jan-Nov 94*/Jan-Nov 93
All industry	-50	-16	-25	-26	-24
Oil industry	-42	-12	-15	-15	-11
Ferrous metallurgy	-48	-17	-26	-25	-19
Nonferrous metallurgy	-57	-18	-16	-12	-10
Machine building	-61	-16	-43	-43	-41
Light industry	-63	-23	-36	-41	-48
Food industry	52	-9	-36	-41	-22

* Industrial output of large and medium-sized enterprises.

As these data indicate, the reduction of output in industry as a whole and in its main branches was approximately the same for a fairly lengthy period of the recession in the Russian economy—from January 1990 to January 1994. Of course, the crisis was more severe in machine building, light industry, and the food industry than in the oil industry and ferrous and nonferrous metallurgy. The rates of production decline in all of these branches, however, were comparable. In 1993 the general tendencies and the intensity of production decline were still approximately the same in the industrial branches in question. This was a result of the interdependence of these branches in the Russian economic complex and the unity and integrity of the Russian reproduction process, which had few ties to the world market. That is why, for example, the recession in machine building led to corresponding production cuts in ferrous and nonferrous metallurgy, the suppliers of its main structural materials. The decline in the oil industry was less serious because oil is a traditional Russian export, and shipments of oil to the world market slowed down the reduction of output to some degree.

In 1994, however, the situation changed radically. As early as January 1994, the decline since January 1993 was 43 percent in machine building, 26 percent in ferrous metallurgy, and only 16 percent in nonferrous metallurgy. In January-May 1994 the difference between the rates of production decline in these branches in relation to January-May 1993 grew more pronounced: The reduction of output in machine building was still 43 percent, but in ferrous metallurgy it had already dropped to 25 percent, and in nonferrous metallurgy it was only 12 percent. The rates of production decline in January-November 1994 in relation to the same period in 1993 were 41 percent, 19 percent, and 10 percent in the respective branches. Consequently, in the past year the decline of production in ferrous metallurgy, and particularly in nonferrous metallurgy—i.e., in the branches producing structural materials—slowed down dramatically while the reduction of output in machine building—i.e., their main consumer—broke all records for the whole period of reform. This could only happen on one condition—a dramatic increase in exports of the products of ferrous and nonferrous metallurgy. In the countries of the near abroad, however, the investment crisis and the consequent recession in machine building were even more severe than in Russia. For this reason, Russian structural materials could have been exported in rapidly growing quantities only

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to the world market, to the countries of the far abroad. Statistics confirm this assumption.

Whereas the decline in Russian production was accompanied by the reduction of exports in 1990-1992, export volume increased by 1.4 percent in spite of the 16-percent reduction of industrial output in 1993. There was a similar situation last year. Industrial output in January-November 1994 was 24 percent below the figure for the same period in 1993, but export volume had increased by 9 percent. Furthermore, the group of production resources which were exported in larger quantities grew much broader. Whereas these resources in earlier years had consisted mainly of oil—exports of which, after a dramatic decline in 1991 (of almost 43 percent in relation to the 1990 volume), grew continuously, with a rate of increase of 17.2 percent in 1992 and 20.4 percent in 1993—the list of products exported in increasing quantities included other production resources in 1994. According to the data of the Economic Analysis Center of the Russian Federation Government, for example, shipments for export in January-September 1994 in comparison with the same period in 1993 increased by 14.6 percent in the oil and gas industry, 43.7 percent in ferrous metallurgy, and 39.5 percent in nonferrous metallurgy. There was also an increase in exports of the products of the chemical, timber, and pulp and paper industries.

Therefore, the tendency toward production decline, which had been developing for five years (1990-1994) and had already been accepted as the "norm," was accompanied last year by a new and increasingly strong tendency in the Russian economy—a dramatic increase in shipments of Russian resources for export.

Growth of Exports of Production Resources and Imports of Foodstuffs

In an article entitled "The Sovereignty of Russia's Regions: Political Myth or Economic Reality?" in the 31 March 1994 edition of DELOVOY MIR, I suggested that the decline of production and the reduction of interregional ties would force the Russian regions specializing in the extraction and primary processing of natural resources to begin pursuing a strategy of maximum accessibility and regional free trade, in which each region would make the move to equivalent external relations with the world market and with all of the other regions of Russia on the basis of world prices. In the article I said that the Volga, Ural, West Siberian, Northern, East Siberian, and Far Eastern regions could supply the world market with products of the oil and gas industry, ferrous and nonferrous metallurgy, and the timber and woodworking industry. The first three regions produced around two-thirds of the whole output of the Russian oil and gas industry in the late 1980s and early 1990s. All three of the "oil" regions are distinguished by a high percentage of marketable product. In those years the proportional amount of products of the oil and gas industry sent out of the region was almost 75 percent in the West Siberian region, just over 52 percent in the Volga region, and around 47 percent in the Ural region. For this reason, the increase in Russian oil exports, which began in 1992 and has already become the "norm," came mainly from these regions.

As I already said, the dramatic increase in exports of products of ferrous and nonferrous metallurgy was a fundamentally new tendency in the Russian economy in 1994. According to Goskomstat data, for example, the rate of increase in exports in January-November 1994 in comparison with the same period in 1993 was 127 percent for cast iron, 122 percent for the semimanufactures, rolled products, and wire products of ferrous metallurgy, 121 percent for iron ore and concentrates, 267 percent for copper, 111 percent for unprocessed aluminum, and 106 percent for nickel. Whereas the overall operational volume in transportation in January-October 1994 was 25 percent below the figure for the same period in 1993, shipments of ferrous metals for export increased 1.6-fold, and shipments of nonferrous metals and items made of them increased 1.3-fold.

Russian ferrous metallurgy is concentrated mainly in the Urals, where over 43 percent of all the products of this branch were produced in the late 1980s and early 1990s. In turn, more than 45 percent of the products of ferrous metallurgy in the Ural region were shipped out of the region. The Northern region, which produced approximately 10 percent of the products of Russian ferrous metallurgy in those years, with 72 percent shipped out of the region, also has considerable export potential.

The output of Russian nonferrous metallurgy is concentrated mainly in three regions: the Ural, East Siberian, and Far Eastern regions. In the late 1980s and early 1990s they produced more than 62 percent of the products of Russian nonferrous metallurgy. The export potential of this branch is particularly impressive in East Siberia and the Far East, where proportional exports of the output of nonferrous metallurgy amounted to 63 percent and 94 percent in the respective regions during those years.

The anticipated economic recovery in Europe, Southeast Asia, and Japan in the next 3-4 years will create a stable demand for the exports of Russian ferrous and nonferrous metallurgy, which are mainly in the form of crude resources and semimanufactures. This is the reason for the interest of transnational corporations in Russian metallurgy. The 28 September 1994 edition of London's FINANCIAL TIMES, for example, reported "a battle for the control of the largest aluminum enterprises in Russia" by Trans-World Metals, an English company—the largest trader of Russian aluminum at this time and simultaneously one of Russia's leading suppliers of alumina (raw material for aluminum production). This company already owns around one-third of the stock in the four largest enterprises in the Russian aluminum industry, which account for around two-thirds of the aluminum production capacities in Russia. These are the Bratsk Combine, the largest aluminum production facility in the world, and the Krasnoyarsk, Novokuznetsk, and Sayansk plants. With the help of this company, capacities to handle large quantities of Australian alumina began operating in the Far Eastern port of Vanino in May 1994. This established an effective relationship between Australia, the world's largest supplier of alumina, and Russia, the main producer of aluminum. Production based on imported raw materials alleviated the effects of the recession in the Russian aluminum industry and secured a high level of wages for the workers in this industry.

The slower decline of production in Russian ferrous and nonferrous metallurgy as a result of the dramatic increase in

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exports from the resource-producing regions of the North, the Urals, Siberia, and the Far East is one of the reasons for another new tendency that became noticeable in the Russian economy in 1994—the rapid growth of food imports. Imports in the first 11 months of 1994 in comparison with the same period in 1993 were 4.8 times (!) as great for imported fresh-frozen meat, 5.6 times greater for poultry meat, 2.7 times greater for butter, 3 times as great for dry milk solids, 4.9 times as great for citrus fruit, 3.5 times as great for fresh apples, 2.2 times as great for coffee, and 1.7 times as great for tea. The fact is that the resource-producing regions of Russia are distinguished by a high percentage of imported foods in total food consumption. The figures in the late 1980s and early 1990s were almost 37 percent for the East Siberian region, 30 percent for the West Siberian region, 28 percent for the Ural and Far Eastern regions, and 26 percent for the Northern region. For a long time these regions were supplied with most of the food they needed by the food industry in the center and south of Russia, but the considerable distances between the resource-producing regions and the traditional centers of the Russian food industry created economic barriers after the liberalization of the prices of energy resources and the consequent rapid rise in shipping costs. Besides this, the reduction of output in the Russian food industry in 1990-1994 exceeded 60 percent. Under these conditions, normal supplies of domestic food products in the resource-producing regions were almost out of the question. For this reason, when they had an opportunity to sell the products of ferrous and nonferrous metallurgy on a broad scale in the world market in 1994, they began to import the foods they needed most.

Therefore, a new tendency made its appearance in the Russian economy in 1994 when the resource-producing regions of Russia turned abruptly toward the world market. The growth of their exports slowed down the decline of production in ferrous and nonferrous metallurgy considerably. The increased exports of these products paid for the dramatic increase in food imports, most of which were shipped to these regions.

New Element of Recession

The stronger emphasis on the world market in the production of Russian structural materials made them even less accessible to domestic machine building. This, combined with other causes, led to the escalation of the crisis in this branch. Whereas the reduction of output in machine building was 16 percent in 1993, the figure had already climbed to 41 percent in the first 11 months of 1994. The intensive food purchases in the world market became an additional factor contributing to the crisis in the Russian food industry in 1994. Whereas the reduction of output in this industry in 1993 in comparison with 1992 was 9 percent, output in the first 11 months of 1994 was 20 percent smaller than in January-November 1993.

The stronger reliance on the world market by Russia's resource-producing regions became a new factor aggravating the economic crisis, and this gave rise to new tendencies in the economy. According to all forecasts, the decline of production in industry was expected to slow down in 1994.

These expectations, however, were not justified. The reduction of output in January-November 1994 in comparison with the same period in 1993 was 24 percent—i.e., 2.5-3 times (!) higher than the anticipated rate. This is an indication of fundamental changes in the mechanism of recession in the Russian economy.

The crisis in the Russian economy has entered a new phase. In my opinion, it will be distinguished by the following three features. First of all, the routine production operations of Russian resource-producing branches and the corresponding regions of Russia and the strategy of their development will be guided more and more by the system of world economic ties. Second, the emphasis on the world market will make the products of the resource-producing regions of the Urals, Siberia, and the Far East almost inaccessible to the resource-processing regions in the center and south of Russia, because their processing branches, with a lower level of effectiveness than the world average, will be unable to pay world prices for the products of the resource-producing regions. Third, the increasingly strong ties of the resource-producing regions in Russia's east with the world market and their geographic distance from the resource-processing regions in the Russian west at a time of high shipping costs will prevent the growth of the demand of the former regions for the products of machine building, light industry, and the food industry in the latter regions. This is certain to result in conflicting tendencies in economic development in the west and east of Russia. The resource-producing east will begin a gradual emergence from the economic crisis and a process of consistent integration with the system of world economic ties. The crisis in the resource-processing west of Russia will grow more severe as a result of the continuous reduction of supplies of raw materials and the dramatic decline in the demand for its products after the resource-producing regions of the Russian east begin buying more and more of the goods they need from the world market.

The more quickly the Russian east completes its integration into the system of world economic ties, the more quickly the Russian west can expect isolated and autarchic development, the uncontrollable loss of its intellectual, technical, and production potential, and its inevitable transformation into a gigantic poverty zone stretching across half of Russia. This, in turn, will encourage the Russian east to redouble its efforts at integration with the world market.

The mechanism for the destruction of the Russian economic zone is an objective result of the effects of basic economic tendencies inherent in market relations. That is why the continuation of the policy of Russian reform in accordance with the orthodox principles of market fundamentalism will lead unavoidably to the breakup of Russia, with all of the ensuing global and local consequences.

Economic Federalism as a Way Out of the Crisis

That is why the Russian system of economic management should be based on the principles of economic federalism as a form of regional-economic social organization. This will presuppose the qualitatively higher role of government regulation in the Russian economic zone in the interest of the whole Russian society. This regulation should be a result of interaction by federal and regional agencies of government regulation to secure equitable roles for the members of

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the Russian Federation—objectively different in the economic sense, but political equal in accordance with the Constitution—in the performance of the necessary functions of government regulation. They should include the following:

—guidelines for interregional economic agreements on shipments of the main industrial and agricultural products;

—assigned shares of the consumption of the main resources;

—comprehensive programs pertaining to the most important socioeconomic problems and areas of scientific-technical progress of an interregional nature.

To secure a material and financial balance in the Russian economic system, interregional and intersectorial shipments of products should correspond to a system of economic criteria for the purposeful regulation of the material and financial proportions of development in the Russian economic zone.

The system for the regulation of interregional and intersectorial shipments should not affect the distribution of specific types of products. This would be achieved with the use of consolidated indicators of interregional and intersectorial shipments of the main industrial and agricultural products. The product list would consist of general groups of products affecting the patterns of expanded reproduction and would cover around three-fourths of the gross domestic product in terms of cost. A preliminary analysis indicates that the list on the federal level should consist of around 250-300 groups of industrial and agricultural products, including 140-170 groups of products of the raw material and fuel-energy branches of industry, 70-80 groups of products of machine building and metalworking, and 40-50 groups of products of the food industry and agriculture. This would allow for the analysis of different options for the development of general economic, interregional, and intersectorial proportions with the necessary degree of precision and the subsequent choice of the option securing the fullest attainment of the socioeconomic objectives of Russian economic development. In accordance with this, the list should define the shares of resources to be allocated to regions and branches.

The system of consolidated indicators of shipments should not be too rigid. It could be adjusted automatically by the mutual agreement of the consumer and supplier. It should not, however, be viewed only as a group of suggested indicators, because the established shares must be covered by the supplier in the absence of agreement between the supplier and the consumer. This would guarantee the protection of consumer interests.

Contracts would define the specific variety of products ordered within established guidelines for shipments and assigned shares of resources on the consolidated list, the volume, dates, and terms of deliveries of specific types of products, and product quality requirements. On the one hand, this would secure the overall balance of the reproduction process and its correspondence to goals approved on the federal level, and on the other it would allow regions and enterprises to retain a high level of economic freedom and enough scope for self-regulation in the market.

The main feature of the federal-regional system of government regulation in the Russian economic zone would be a voluntary and equitable agreement, based on the consensus principle, by federal and regional agencies of government regulation on the future economic activities of the country—a system of checks and balances, as it were. During the process of the construction of the all-Russian vertical structure of economic management—objectives, regulators, and contracts—an understanding of the objective interdependence of decisions by all parties to the agreement is inevitable, and this will be followed by a collective analysis of the consequences of decisions, the convergence of views on existing and anticipated problems in the socioeconomic development of Russia as a whole and of all the regions making it up, the reduction of conflicts, and the flexible integration of the political and economic interests of federal and regional agencies of government regulation in the process of balancing these interests. The collective analysis of objectively possible trends in the development of the whole national economic zone of interdependent and intersupplementary Russian regions will create the prerequisites to judge the feasibility and correspondence of suggested goals and to find fundamentally new ways of attaining them, which is certain to promote the convergence of the views of regional and federal officials and establish mutual confidence in the search for agreed development options.

The construction of the integral all-Russian vertical structure of economic management—the common objectives, the agreed regulators, and the equitable contracts—will necessitate the drafting of an agenda for Russia's socioeconomic development and a general strategy for the coordinated development of all Russian regions over the long range—at least 10 years. The development of the agenda will be preceded by the drafting of socioeconomic forecasts of the development of Russia as a whole and of each separate member of the federation in the next 10-15 years. After the agenda has been approved by the supreme legislative and executive bodies of Russia, it will serve as the legislative basis for the coordinated development of a federal-regional system of planned government regulation of the unified Russian market.

The drafting of a forecast up to the year 2010 by scientific organizations of the federal center and the members of the Russian Federation could be the first step in developing the agenda. This forecast would help in defining the common objectives of the socioeconomic development of Russia and its regions and the necessary social, structural, investment, and scientific-technical policy for the attainment of these goals and could serve as the basis for the subsequent work of developing the agenda for Russia's socioeconomic development during the period up to 2010.

The implementation of the principles of economic federalism will require new methods and a new system for the organization of the work of regulating economic processes, new forms of information exchange, and the extensive use of computers and modern mathematical methods of economic analysis. Russian economic science has all of this at its disposal and can put it to work as soon as the appropriate political decisions have been made.

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